

## Market Overview

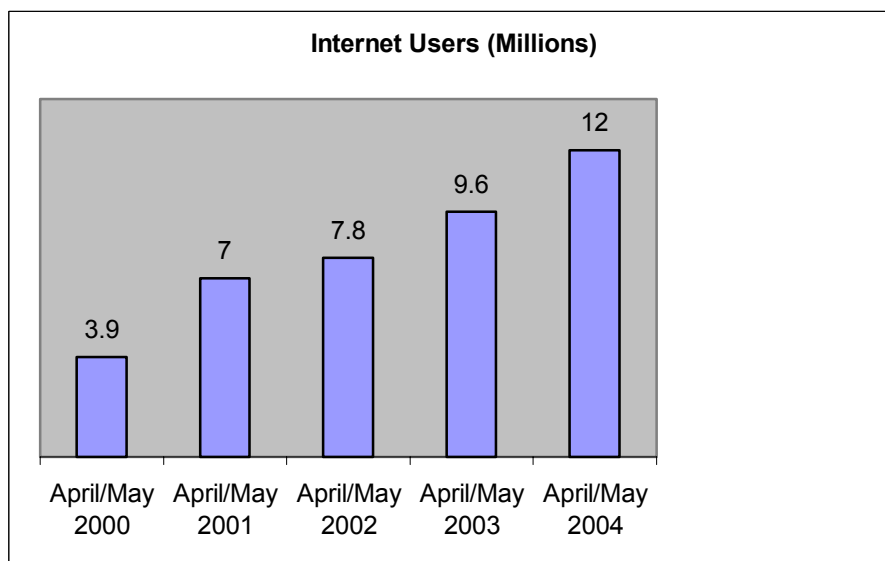
Tourism plays an extremely important role in the Spanish economy accounting for 11 percent of the GDP and employing over 11 percent of its work force.

Spain was the second most popular world destination in 2004 with 53.6 million visitors and revenues of USD 41 billion (Euros 36 billion).

The country has the largest number of travel agencies per capita in Europe, with 8,500 agencies spread out across the country. This represents one agency for every 4,700 inhabitants. This figure is substantially higher than in other EU countries. One of the reasons for the high number of agencies is the strong expansion of the major networks in recent years. The top ten companies now account for over 40% of outlets. The top six networks alone account for over 3,000 outlets. There are approximately 2,000 agencies in Madrid and Barcelona.

However, only 18% of all the trips taken (approximately 40 million) were reserved through travel agencies. Interestingly, when Spaniards travel outside of Spain, 50% of the reservations are made through agencies.

During 2004, Spain was the United States' 11<sup>th</sup> largest international market with 305,000 arrivals. That total represented a 5 percent increase in Spanish visitors over the previous year. Estimates for growth in 2005 are in the 7% range.



Source: AUI (Spanish Association of Internet Users)

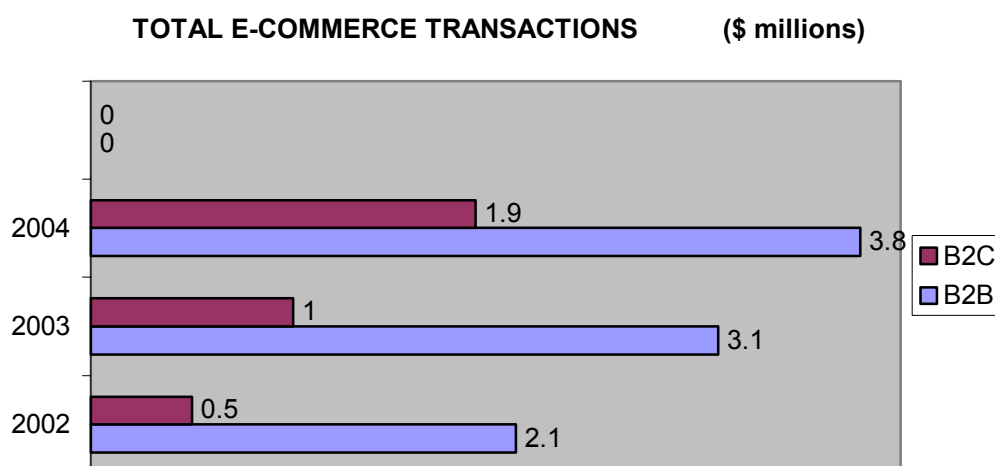
Despite the overall level of Internet use in Spain being relatively low in comparison with north European countries, the number of Internet users has increased substantially. Two-month figures taken year-to-year from 2000 to 2004 show Internet users tripling, from 3.9 million to 12 million. Nonetheless, the travel sector is currently one of the most active in E-Commerce. Although the majority of Spanish travelers still prefer to finalize their international travel arrangements with a travel agency, more and more end-users are using Internet not only to gather the information they need prior to confirming their travel arrangements, but also to make online purchases, particularly transportation. A study by Ya.com revealed that 56% of Internet users check the web for information prior to making any purchase. While 35% confirm they found the information they

needed, another 35% relied on input from friends and families, 31% went to travel agencies, 22% used travel guides and 17% used tourism offices (figures add up to more than 100% since some respondents used multiple sources). The outgoing nature of the Spanish personality and their purchasing habits make the changeover to E-Commerce activity somewhat slower in Spain than in many northern European neighbors. Concerns over security also continue to hamper B2C sales.

## Market Trends and Highlights

Industry sources are confident that 2005 will see the country continue to make significant progress toward catching up with other European nations and the United States in terms of increased use of the Internet for business, educational and personal purposes.

Industry sources estimate that total Spanish B2B sales increased from USD 2.1 billion in 2002 to USD 3.8 billion in 2004. B2C turnover is estimated at USD 2 billion in 2004, up from \$500 million in 2002. The introduction of a single currency for the European Union (the Euro) has been a factor in eliminating barriers with respect to the purchase of goods in electronic transactions.



**Source:** Industry sources

Industry sources maintain that the increased use of Internet and online purchases combine to make online travel arrangements very attractive. According to AECE (E-Commerce Association), the purchase of bus, train and air tickets now ranks first in the list of products sold via Internet (over 24.5 percent, followed by books and entertainment (15.7 and 12.2%). Accommodation reservations and tourist packages rank 10th and 12<sup>th</sup>, at 5.2% and 3.5%. Other sources indicate, however, hotel reservations as being more popular.

Although figures vary, online sales in the overall travel segment were reported to be in the range of Euros 1 billion (USD 1.3 billion) in 2004, an increase of 135% over the Euros 500 million (\$600 million) generated in 2003. This increase places Spain with the highest growth rate in Europe. Spain's market share of total online sales in Europe is now 4.2%, up from 3% in 2002, placing the country ahead of Italy and very close to France. Sector sources indicate that by 2007 approximately 20% of the airline tickets sold and 11% of hotel reservations will be done via Internet.

This growth is due to several factors including the increase in online hotel reservations. Other reasons for the increase are listed as the growth of low cost airlines, the increased familiarity of Spanish Internet users with online purchases and the trend of airlines and hotel chains to market directly via Internet, to the detriment of traditional travel agencies.

Examples of some specific developments show Rumbo, the leading travel website, reporting a turnover of 140 million euros in 2004, an increase of 60% over the 87 million reported in 2003. Another leading site, Viajar.com reported an increase of 80% in the number of visits during the summer of 2004, to 875,000. The company reports that turnover increased by 300% during the same period. During the third quarter of 2004, Viajar.com reported 200,000 transactions of air tickets and hotel+flight packages. The volume of sales for services other than "flight only" continues to increase. Air tickets had originally accounted for 80% of the sales for Viajar.com. Air tickets now account for 62% of the turnover. The remaining 38% comes from the sale of hotel + flight and 22% from holiday packages.

The ability to acquire airline tickets, hotel reservations and country/city information online will bring about further competition among local tour operators and travel agencies and will lead to more competitive offers and better service for Spanish consumers.

Many "brick-and-mortar" agencies feel threatened by these changes and feel they have no option but to adapt to the changes and look for new areas of opportunity. Nonetheless, many of the traditional travel agencies in Spain are small entities, and incorporating Internet into their business structure generates many problems and concerns, particularly with online sales (following transactions, payment systems and security in transactions) and designing web pages. However, as much as the small to mid-sized enterprises may harbor reservations regarding opening up new sales channels, the undeniable advances being made by Internet and the benefits of being able to conduct business 24 hours a day, offset their concerns. The continued growth of online presence of all the players in this sector implies that small travel agencies will need to adapt to offering niche products and services or merge with other entities if they are to survive.

The growing demand by the Spanish end-user for travel packages or complicated products for one-stop solutions will continue to be met by the traditional travel agencies, although as noted below sophisticated internet software is increasingly competitive. Call centers will continue to be the most widely used tool for the online agencies.

The growth of E-Commerce opens up new promotional vehicles for U.S. destinations and travel companies.

## **Competition**

Long-haul travel (1.7 million travelers) represents approximately 10% of all outbound travel from Spain. Top long-haul destinations are the United States and Morocco.

## **End-users**

The average Spanish traveler to the United States is between 25 and 45 years of age, with over 44 percent belonging to the upper-middle income segment. The length of

stay is between 12 – 14 days. Travel usually takes place during the months of June, July and August. Most Spanish travelers (67%) choose the USA as a vacation destination. Spanish travelers do not plan far in advance when deciding about their vacation destinations. At most, they will contact their travel agent 20 to 30 days before their intended departure date.

Traditional travel agencies are being confronted with new competitors offering a complete range of services in just one web site, from tickets to holiday packages and excursions. The increase of e-ticketing has strengthened the hand of the airlines in their initiative to reduce travel agents' commissions.

The travel and tourism sector is reported to be adjusting to meet the new digital economy. The most popular Internet features are e-mail, the web or data transfer. The more sophisticated features such as telephony, Intranet, chat groups, videoconferences, and EDI connections are less in demand by Spanish travel agency/professionals.

### **Market Access**

In the last few years, traditional distribution channels have gone through significant changes. Tour operators have diversified their products. Not satisfied with selling airline tickets and travel packages, the leading tour operator/ companies/groups in Spain have begun to buy into major airlines, hotels, and other tourism-related businesses, and/or have signed partnership agreements. The ever-increasing importance of Internet is making this tendency more pronounced. This new way of conducting business has resulted in increased competition in the sector and the disappearance of a number of small, independent travel agencies. About 90 of the 200 tour operators in the country offer the United States as a travel destination. However, only about a quarter of the 90 highlight it as a major tourism destination in their promotional catalogs/brochures

Spain, like other EU countries, has a market economy. American companies will enjoy free movement of capital where business profits can be transferred without restriction.

Spaniards traveling to the United States for tourism/business purposes only need a valid Machine Readable Passport (MRP) and return ticket dated within 90 days of their arrival. Travelers with non-MRP passports must obtain a visa. Visas are also required for visits exceeding 90 days, as well as for educational, professional or other purposes.

### **Market Entry**

Sector sources agree that the online travel industry is just starting. In comparison with the United States, where online holiday travel bookings account for over 24% of the total, the market share in Spain is still a tiny 3.5%, offering much room for growth. An interesting factor is that the the major international online players in this sector -- e.g. Opodo, Expedia, Travelocity -- have yet to enter the market. American companies interested in having their destinations and/or services represented in Spain can best to do so through ties with tour operators in Spain or through Spanish tour operators who are already familiar with the United States as a tourist destination. The majority of tour operators sell through travel agents. Many of the leading tour operators participate actively in the leading travel and tourism portals. U.S. operators and destinations familiar with the online market in the U.S. should take advantage of their experience and establish contact with the current players in Spain (listed below).

Spain is a good market for U.S. technical products and services related to Internet. The competitive factors in this market are technology, reliability, price, delivery, and technical and educational support. However, as E-Commerce gathers momentum, competition, particularly from within Europe, will increase. Nonetheless, U.S. companies have an advantage in this competitive market given their technical know-how and experience, as well as the broad range of products and services offered. The nature of the E-Commerce business-to-business market provides many opportunities for small but innovative companies. Sub-contracting is quite common. U.S. firms wanting to do business in Spain, without having to set up a presence, may find it useful to team up with Spanish firms, as in addition to technology, the business-to-business market requires a high level of service and face-to-face consulting. Furthermore, although English is the dominant language on the Net, it does not mean that everybody is fluent in English. This is another reason for smaller and medium-sized companies to consider teaming up with a Spanish counterpart to develop a market access strategy.

Identification of possible local partners can be done through the organization of workshops and/or destination seminars. Familiarization (FAM) trips are another source which U.S. companies interested in the Spanish market can use to identify local representation.

Participation in Spain's International Tourism Trade Fair (FITUR) provides American tourism companies/entities with the opportunity to promote their services and destinations among the Spanish tourism and international travel trade as well as among prospective Spanish travelers. Additionally, it provides U.S. exhibitors with a venue during which to identify local representatives. FITUR is held annually at the end of January in Madrid. This year's edition had 808 stands representing over 11,000 companies. There were 102,000 professional visitors and an additional 100,000 private consumers.

Spain's largest Information and communications exhibition, SIMO, provides an excellent opportunity for U.S. firms who wish to increase exposure to the Spanish ICT market. The event is held each year in November. Last year's edition had 805 exhibitors and 225,000 professional visitors. SIMO is an excellent opportunity for U.S. firms to assess the market and identify potential partners and competitors. Commercial Service Spain offers a whole range of products and services for U.S. companies seeking business partners in Spain. These services include up-to-date market information, assessment of a U.S. firm's product sales potential, identification of potential representatives, individual counseling, trade missions, setting up appointments with screened firms, etc.

Additional information on marketing U. S. products and services in Spain is contained in the "Country Commercial Guide" report for Spain, which is available through the U.S. Export Assistance Centers and at the website [www.buyusa.gov](http://www.buyusa.gov)

Spaniards prefer the use of credit cards when making payment for their vacations and when traveling abroad. Credit cards such as VISA, MASTERCARD, AMERICAN EXPRESS are the most widely used by Spaniards. Corporate cards, not widely used by Spanish companies at the moment, are used primarily to cover the airfares incurred during business trips. According to sources within the industry, this is mainly done because of the higher travel insurance coverage offered by credit card companies.

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### **Opportunities for Profile Building:**

Apart from the major trade show in Madrid, other leading travel sector events such as PowWow (U.S.), WTM (London), and ITB (Berlin) all offer opportunities to network with important players from the Spanish market.

### **Key Contacts**

Ministry of Industry, Commerce and Tourism: [www.min.es](http://www.min.es)  
Visit USA Committee: [www.visitusa-spain.com](http://www.visitusa-spain.com)  
Spanish Travel Agencies Association: [www.aedave.es](http://www.aedave.es)  
Federation of Travel Agency Associations: [gerencia@feaav.org](mailto:gerencia@feaav.org)  
Association of Spanish Travel Wholesalers: [amave@amave.org](mailto:amave@amave.org)  
American Chamber of Commerce in Spain: <http://www.amchamspain.com>  
Websites:

Rumbo.es  
Viajar.com  
Octopustravel.com  
Lastminute.com  
Edreams.com  
TerminalA.com  
e-viajes.com  
Atrapalo.com

### **Upcoming Trade Shows**

FITUR (the Commercial Service supports a US Pavilion at this annual Travel and Tourism Fair), IFEMA, Madrid, January 25 – 29, 2006.

[www.ifema.es](http://www.ifema.es),  
[www.conexgroup.com](http://www.conexgroup.com);  
[helen.crowley@mail.doc.gov](mailto:helen.crowley@mail.doc.gov)

EIBTM (Incentive & Business Travel), Fira de Barcelona,  
November 29 – December 1, 2005, [www.firabcn.es](http://www.firabcn.es)

SIMO (Information and Communication Fair)  
IFEMA, Madrid, November 15-20, 2005  
<http://www.ifema.es/ferias/simo/default.html>